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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1949.

No. 304

PAPER CONTAINER MFG. COMPANY,
Petitioner,

v.

DIXIE CUP COMPANY,
Respondent.

Reply Brief of Paper Container Mfg. Company on Petition for a Writ of Certiorari to the Court of Appeals for the Seventh Circuit.

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Table of Authorities Cited.

PAGE

A. B. Dick v. Marr, 155 F. (2d) 923 (C.A. 2, 1946) (329 U. S. 608, 1946) 6

Dixie Cup Company v. Paper Container Mfg. Co., 169 F. (2d) 645 (1948) 3

Dixie Cup Company v. Paper Container Mfg. Co., 174 F. (2d) 834 (1949) 6

Hartford-Empire Co. v. Obear-Nester Glass Co., 95 F. (2d) 414 (C.A. 8, 1938) 4

Hartford-Empire Co. v. United States, 323 U. S. 386, (1944) 4

Statutes Cited.

Revised Statutes, Sec. 4921 (Title 35, U. S. Code, Sec. 70) 2

U. S. Constitution, Art. I, Sec. 8 6

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The present petition is founded on an abuse of Letters Patent not heretofore considered by this Court. This abuse took the form of an indiscriminate assertion of many patents against Petitioner, followed by a prolonged five-year accounting wherein Petitioner was subjected to excessive expenses incident to Respondent's effort to assert a new construction, ultimately held to be unsound, of its single enforceable patent, a construction irreconcilable with Respondent's earlier representation to the Patent Office and the courts (Petition p. 2 et seq.).

This misuse of the patent monopoly is no less reprehensible than the misuses condemned by this Court in the prior patent misuse cases. Its operation is more insidious, for the wrongfully accused competitor, under the decisions below, is faced with the prospect of an unavoidable staggering economic loss whether he prevails in the fight to compete or loses. The merit of his case is immaterial. Its ultimate disposition in his favor is little consolation and affords no redress.

Respondent cites the traditional cases relative to appeals from awards of costs (Br. p. 7). Where in these cases is found any consideration of the public interest charged to a patent owner, the violation of which forms the basis of this petition?

The numerous lower court decisions cited to display judicial reluctance to award attorney fees (p. 8) in no way involve the public interest here associated with the assertion of patent rights inconsistent with the positions previously taken before the Patent Office in procuring the patent and the courts in seeking its enforcement.

Section 4921 R. S., 35 U. S. C. 70, assures to litigants in patent cases the discretion of the trial judge in awarding attorney fees. Certainly the doors of this Court are open where the public interest is prejudiced by failure to exercise the discretion thus granted.

Respondent makes much of the award of treble damages for infringement of the single patent ultimately left in the case (Br. p. 5). This does not absolve Respondent from responsibility for its conduct in seeking its remedy in a manner wholly violative of the public interest. The mere fact that some conduct of Petitioner transgressed Respondent's patent monopoly does not license indiscriminate charges designed to preclude competition in other

activities by exhausting Petitioner's resources. The temptation to abuse patent rights by indiscriminate charges of infringement, and the effect of these unjust charges on the public interest, is greatest when there is a color of right in the patentee to seek judicial redress such as where a patent has been held valid and infringed. It is here that the courts must protect the public interest most jealously to prevent expansion of the initial decision to encompass subject matter never intended to be covered, or covert assertions of non-existent rights.

With respect to Petitioner's conduct, the Court of Appeals had this to say:

> "* * * We think that defendant has paid the penalty for the transgressions of Hulseman, and we see no reason why his misconduct should permeate and give color, as it apparently has, to the numerous questions raised in the instant proceeding. In this connection, we are also of the view that plaintiff's conduct is not free from criticism. The institution of a suit charging the infringement of fourteen patents with their innumerable claims, ten of which are withdrawn before trial, as was done here, would seem to indicate not only a state of uncertainty and confusion as to what rights were sought to be enforced, but raises a question as to whether the suit was commenced in good faith or for the purpose of harassment." (169 F. (2d) 645, 652)

Respondent, at p. 10 cites a group of decisions where additional machines were brought into accounting proceedings. None of these decisions are pertinent here for none involved the issue of malevolent and inconsistent assertion of patent rights contrary to prior positions taken before the Patent Office and the courts. Moreover, none involved any question of restoring to the accused any of the unnecessary expenses occasioned by a wrongful and inconsistent charge of infringement.

The five cases cited by Respondent purporting to illustrate introduction of new machines in accounting proceedings emphasize the extent of the public interest here involved. Only three of these decisions are less than twenty-five years old and two of these three are closely associated with abuses of the patent system. The first, *Hartford-Empire Co.* v. *Obear-Nester Glass Co.*, 95 F. (2d) 414 (C. A. 8, 1938) (cited by Respondent as *Hartford-Engine Co.* v. *Obear-Nestor Glass Co.*), involved the Hartford-Empire Company, an organization notorious for its abuse of patents (*Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 1944). The other case, *A. B. Dick* v. *Marr*, 155 F. (2d) 923 (C. A. 2, 1946), has been remanded by this Court for consideration of whether prosecution of the case involves fraud on the courts (329 U. S. 680, 1946).

Respondent's effort to bring up the five-year accounting record, is typical of the expense-creating demands made throughout this litigation (Br. p. 11). The accounting record exceeds 5,000 pages, excluding exhibits and formal papers (Rec. 29). To print this record with the attendant exhibits would require many thousands of dollars with the incident further prejudice of Petitioner's ability to compete.

The accounting appeal is No. 9558 before the Court of Appeals for the Seventh Circuit. This petition is based on appeal No. 9782. Respondent points to no rule of this Court requiring that the record in one appeal must be printed to support a petition for certiorari on another appeal.

Respondent makes much of the refusal of the District Court to consider the infringement question before the accounting, implying that Petitioner was responsible for,

or at least approved, this action (p. 12). The fact is that Petitioner sought an adjudication of the infringement question by timely petition for a declaration of non-infringement (Rec. 24, 88). Respondent replied to that petition by motion to punish for contempt, asserting that Petitioner could not raise the question of infringement (Rec. 24, 88-89).

Moreover, counsel for Respondent has already declared that Petitioner opposed the procedure finally followed "with all its might" when the matter came up in 1943 (Rec. 51).

The consequences of the ill-advised reference display vividly how failure of a patentee to observe the trust imposed upon it by the possession of patents results in placing the judicial imprimatur on a reprehensible and improper practice. Following the unnecessary reference, the District Court could make no decision adverse to the Respondent without tacitly admitting error. It was in this atmosphere that the District Court held the Smith and Bild patent infringed by innocent machines, a decision later reversed on appeal. Likewise the action of the District Court in making the reference was emphasized on the issue of fees, again leading to a decision unfavorable to Petitioner (Rec. 51).

When the fees question reached the Court of Appeals the action of the District Court in making the original reference was again relied on to support the Respondent's position (Brief for Plaintiff-Appellee, Appeal No. 9782, p. 28). This argument of Respondent had its effect, for the Court of Appeals declared with respect to the second reference:

> "* * * Obviously, the court might * * * have determined preliminarily to the accounting, whether the

> two machines which had been brought into the case after entry of the decree infringed. However, the court, presumably because of the multiplicity and volume of litigation arising in the District Court in a great metropolis and the consequent pressure upon the court, thought that the most practical procedure was to let the Master hear the entire matter on the accounting * * *." (174 F. (2d) 834, 835).

The error below resides in a failure to impose on the patentee itself a standard of discretion commensurate with the economic power it wields. Unless this standard is required, patentees may in the future maneuver competitors, and even the courts, into situations where they can act only in a manner contrary to the public interest. If patents are to be confined to the constitutional purpose of promoting "the progress of science and useful arts" (U. S. Const., Art. I, Sec. 8) it is essential that this Court unequivocally define this standard and demand that patentees adhere to it.

The public interest more than Petitioner's cause requires that the petition be granted and that the decree of the Court of Appeals for the Seventh Circuit be reversed.

Respectfully submitted,

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Attorneys for Defendant.

September 30, 1949.